





GOVERNMENT ASSISTANCE FOR SMALL BUSINESS

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## PREFACE

This paper has been written to fulfill the requirements for the degree of Master of Business Administration at the George Washington University.

The subject discussed in this paper has been a controversial one, both in the Government and in private industry. Due to the far-reaching political, economic, and social implications inherent in any Government assistance program, it behooves all concerned with it to have a clear understanding of the program and how it functions. Those military and civilian individuals who are now, or will be at some time in the future, concerned with management of military activities and the control and expenditure of public monies, will find that an appreciation of the Government Small Business Assistance Program is of great value.

The assistance of the Small Business Advisors of the Department of Defense, the Department of the Navy, the Department of the Army, the Department of the Air Force, and the U. S. Marine Corps is gratefully acknowledged. Valuable assistance has also been generously provided by officials of the Small Business Administration, and by several large and small industrial firms whose officers have willingly and graciously provided valuable information and views on certain portion of the study. My appreciation is expressed for this assistance.







The views, conclusions, and recommendations, except where noted, are my own and should not be attributed to other persons or agencies.



## INTRODUCTION

The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and individual judgment be assured. The preservation and expansion of such competition is basic not only to the economic well-being but to the security of this Nation. Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed. It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts for property and services for the Government (including but not limited to contracts for maintenance, repair, and construction) be placed with small-business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation.

Further, it is the declared policy of the Congress that the Government should aid and assist victims of floods and other catastrophes.<sup>1</sup>

Economic history was made on July 11, 1958 when the Senate passed and sent to the White House the Small Business Act of 1958.<sup>2</sup> This legislation created the Small Business Administration as a permanent agency of the Executive branch of the Government and made clear the intention of the Congress that government assistance and backing will be available to help the

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<sup>1</sup>85th Congress, 2nd Session, Public Law 536, Sec. 2, July 23, 1958.

<sup>2</sup>Ibid., Sect. 1.





small business firm maintain its vital role in our national economy and security.

The Small Business Act of 1958 serves to formalize a philosophic concept long held by Americans and first given tangible expression by the creation of the Smaller War Plants Corporation in the early days of World War II, and the Small Defense Plants Administration during the Korean War.

The difficulties and problems are almost too numerous to mention and each small business concern does not have the same problems. Tax burdens, restraint of trade, monopolistic practices, price fixing, and financing problems are but a few. This discussion will be confined to the problems encountered by the small business firm in the area of Government procurement. Chapter I discusses the organization, policies, and assistance programs of the Small Business Administration. Chapter II takes a look at the Department of Defense and the organization, policies, and assistance programs developed and followed in the Department of Defense and the military departments. Chapter III discusses some of the more pressing problems of the small business concern involved with Government procurement. Chapter IV is a summary of the Department of Defense assistance programs, and gives some conclusions of the author.

It is hoped that this presentation may be of help to the many individuals, both military and civilian, in the Department of Defense who surely will have occasion to be involved in some phase of a small business problem.



## CHAPTER I

### THE SMALL BUSINESS ADMINISTRATION

In order to carry out the policies of this Act there is hereby created an agency under the name "Small Business Administration" (herein referred to as the Administration), which Administration shall be under the general direction and supervision of the President and shall not be affiliated with or be within any other agency or department of the Federal Government.<sup>3</sup>

The Small Business Administration (hereafter referred to as SBA) is the first peacetime independent Government agency created for the sole purpose of advising and assisting the small business enterprises of the nation.

#### Organization

The responsibility for carrying out the policy of Congress as outlined in the Small Business Act is assigned to the Administrator of the Small Business Administration, assisted by three Deputies reporting directly to him. The three Deputy Administrators are in charge of Procurement and Technical Assistance, Financial Assistance, and Administration of the agency.

The Small Business Administration has two principal operating offices: the Office of Procurement and Technical Assistance, and the Office of Financial Assistance. There are also these staff offices: General Counsel, Organization and

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<sup>3</sup>Ibid., Sect. 4 (a).





Management, Economic Adviser, Controller, Information, and Personnel.

The agency also maintains fifteen Regional Offices and numerous branch offices which report to the regional offices. The regional offices are located throughout the United States and serve a well defined geographical area. It is through the fifteen regional offices and the branch offices reporting to them that virtually all of the services to the owners of small businesses are provided.

The SBA has established both national and local small business advisory groups to assist in developing and carrying out its programs. The national group is called the National Council of Consultants; the local groups, the National Board of Field Advisers. Through these national and local advisory boards, the Small Business Administration is able to draw upon the advice of owners and representatives of small businesses in every part of the country. Thus, in shaping its programs, the Small Business Administration has the active assistance and guidance of the very persons whom the programs are intended to serve. These groups report on current small business problems and recommend ways in which the Small Business Administration can best assist in overcoming them.

Both the National Council of Consultants and the National Board of Field Advisers are made up primarily of businessmen engaged in every field of business, in finance, and in the professions, whose knowledge of and interest in the problems of small business enable them to make a substantial contribution to



the work of the advisory groups. Members of the national and field advisory groups are appointed by the Administrator and serve without compensation.

### Programs

In the Small Business Act of 1958, Congress stated that " . . . a fair proportion of the total purchases and contracts for supplies and services for the Government be placed with small-business enterprises."<sup>4</sup> The SBA, in fulfillment of its responsibilities under the Act, has developed certain programs which it carries out to assist small business firms. The Act specifically charged the Small Business Administration to:

- a. Cooperate with Government purchasing agencies in determining which of their purchases should be awarded to small firms in the interest of maintaining or mobilizing the Nation's full productive capacity or in the interest of war or national defense programs.
- b. Provide small firms with advice and guidance on selling to the Government.
- c. Make or arrange to have made a complete inventory of all productive facilities of small business concerns which can be used for war or defense production.
- d. Certify to the financial and technical ability of small firms to fulfill Government contracts on which they are the lowest responsive bidders.
- e. Enter into contracts with other Government agencies

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<sup>4</sup> Ibid., Sect. 2.





to furnish them with needed supplies, equipment, or materials, and arrange for performance of the contracts through subcontracting with small firms.

The programs developed by the Small Business Administration to fulfill these responsibilities are discussed in the following pages.

#### Set-Aside Program

Under this program, SBA representatives at the principal military and civilian agency procurement centers, working with procurement officers, review proposed purchases to determine which of them should be set aside for exclusive award to small business. Those purchases found suitable for supply by small business, if jointly agreed to by the SBA and the purchasing agency, are earmarked and reserved exclusively for competitive award to small firms. Either an entire purchase or a percentage of a purchase may be reserved in this way.

SBA field offices call to the attention of small firms in their areas purchases reserved for small business which the firms are capable of supplying and on which they may wish to bid. Purchases which have been set aside for small business also are listed in a separate section of the United States Department of Commerce publication, "Synopsis of U. S. Government Proposed Procurement, Sales and Contract Awards." This publication, issued daily, is available for inspection at Small Business Administration and Commerce field offices, or may be obtained on a subscription basis by anyone desiring to use it.





### Certificates of Competency

The SBA offers what is in effect an appeal procedure for the small firm whose low bid on a Government contract has been rejected on the grounds that the firm lacks the necessary financial and productive capacity.

Under the Small Business Act, SBA is authorized to certify that small firms or small business defense production pools are competent, with respect to financial means and productive capacity, to perform specific Government contracts.

Once such a certificate is issued by the SBA, procurement officers are directed under the law to accept it as conclusive as far as financial and technical requirements of the contract are concerned.

Certificates of competency are issued only under the following conditions:

1. The SBA has determined that the firm applying to it for a certificate is the lowest responsive bidder on an advertised purchase or within price negotiation range on a negotiated purchase.

2. The procurement officer has questioned the firm's financial ability or productive capacity with respect to the particular contract.

3. A survey by the SBA of the applicant's financial situation and productive facilities clearly indicates that the firm is competent to perform the contract.

### Counseling and Assisting Small Firms

One of the most important programs of the SBA is



counseling and assisting small firms in selling to the Federal Government. As part of this program, the Small Business Administration helps the small business owner to determine what products or services he can supply to the Government and furnishes him with the names and locations of Government installations which normally buy the items or services. The small business owner then can obtain listing on the agencies' appropriate bidders lists. In addition to its counseling services, the SBA makes available to small firms a vast amount of information on selling to the Government and provides them with many other types of assistance. For example, it advises small firms of the necessary procedure for getting their products on Government qualified products lists, maintains for their use reference libraries of packaging specifications, and advises small firms of purchasing offices which need additional suppliers for specific items.

#### Facilities Inventory

Each SBA Regional office maintains a record of the productive facilities of small firms in its locality for a two-fold purpose: to make the full productive capacity of small firms available in the event of mobilization for defense, and to call to the attention of appropriate small firms prime contract opportunities and subcontracting opportunities with large prime contractors in the area. The SBA offices also inform large firms in their areas of smaller concerns which are qualified to take on subcontracts.





### Prime Contract Authority

The SBA has the authority to enter into prime contracts with other Federal agencies and to subcontract the work to small business concerns. This authority, however, will only be used in cases of compelling necessity.

### Production Pools

The SBA gives advice and assistance in the formation of small business defense production pools; formally approves their proposed operations, subject to the concurrence of the Chairman of the Federal Trade Commission and the Attorney General, and calls to their attention prime contract and subcontract opportunities.

### Procurement Publications

Two publications have been developed by the SBA to aid small firms in bidding on Government contracts: the "U. S. Government Purchasing Directory", a comprehensive guide to the items purchased by the military and civilian agencies of the Federal Government, and the offices which buy them, and the "U. S. Government Specifications Directory", a complete guide to reference files of specifications and standards for products and services purchased by the Government.

Each publication may be purchased from the U. S. Government Printing Office, Washington 25, D. C., or from field offices of the U. S. Department of Commerce, which is an authorized sales agency for the Government publications.

### Management and Technical Assistance

For many small firms the most serious problem is not one





of obtaining financing or Government contracts, but an urgent need for help in overcoming a management or technical problem or in acquiring greater management and technical skill. The Small Business Administration helps here in a number of ways:

1. Administrative management courses. In cooperation with the SBA, collegiate schools of business and other educational institutions offer owners of small firms courses in currently important business administration subjects. These courses, usually conducted in the evening, are taught by experienced business leaders and college teachers. A businessman can obtain information about courses to be given in or near his community by contacting the Small Business Administration field office in his area.

2. Small Business Leaflets. The SBA publishes three series of practical, helpful leaflets called "Management Aids for Small Manufacturers," "Small Marketers' Aids," and "Technical Aids for Small Manufacturers." These leaflets cover a wide range of management and production problems, telling how to recognize and deal with them. A listing of the Aids is available from any SBA field office, and single copies of any of the leaflets may be obtained free upon request from field offices. New leaflets can be received automatically through a request to the Washington office to be placed on the mailing list for one or more of the series.

3. Small Business Management Series. Booklets on important management subjects also are published periodically by the SBA. "Cost Accounting for Small Manufacturers,"





"Human Relations in Small Industry," and "Making Your Sales Figures Talk," are a few of the subjects covered. These booklets are sold for a nominal fee and are available from the U. S. Government Printing Office or one of its sales agencies.

4. Management Counseling. The SBA field office staffs include experienced management counselors who work directly with owners of small businesses on specific problems presented to them.

5. Products Assistance. The SBA provides experienced counsel to small business concerns and individuals in locating a marketable product or new line or type of product, and in locating a market for a product, which may include someone to make it and put it on the market. The program is designed to assist small firms in finding solutions to research and development problems regarding product improvement and new products as they arise from day to day. As part of this service, field offices maintain lists of Government-owned patented products and processes which are available to small firms either free or with only a nominal charge for their use.

6. Assistance with Technical Production Problems. Production specialists in the SBA regional offices are available to help individual small business concerns with technical production problems. These problems frequently arise in cases where a firm is making items for the Government not directly along the lines of its normal civilian business or where the Government specifications require operations which the firm did not understand when it undertook the contract. Production





assistance often takes the form of locating tools or materials which are urgently needed. Advice is also given on problems of plant location and plant space layout.

#### Financial Assistance

The SBA authorizes loans from a revolving fund appropriated by Congress for this purpose. The loans are of two types: business loans and disaster loans. Business loans are made to finance business construction, conversion, or expansion, or the purchase of equipment, facilities, machinery, supplies, or material; to supply working capital; or as may be necessary to insure a well-balanced national economy. Disaster loans are made to rehabilitate businesses or homes damaged or destroyed by storms or other natural catastrophes, or to aid businesses which have suffered substantial economic injury because of severe drought conditions.

The loan policies of the SBA are determined by a three-member Loan Policy Board, created under the Small Business Act and composed of the Administrator of the Small Business Administration, as Chairman, the Secretary of Commerce, and the Secretary of the Treasury. This Board has the authority to revise the general loan policies of the Agency to fit the changing conditions and needs of the national economy.

Participation by banks and other private institutions with the SBA in making business loans is encouraged. Loan funds available to the SBA can assist many more individual firms when augmented by private capital available through banks and other private lending institutions.



All applications for business loans are filed with SBA field offices. The application may be filed by the business concern seeking the loan or by a bank which proposes to join with the SBA in making the loan. Loans can be granted if they are of such sound value or so secured as reasonably to assure repayment.

Financial specialists are on hand in the SBA field offices to counsel and advise small firms on financial problems, and to help them obtain assistance through private lending institutions. Services performed by field offices include: examination of financial conditions and recommendations as to reorganization; examination of working capital requirements; study of expansion needs; and arranging for conferences with bankers, Government purchasing officers, creditors and others in endeavoring to work out solutions to financial problems.

At the same time the SBA is carrying on its own financial assistance program, it is actively engaged in encouraging the development of additional reservoirs of private credit for forward-looking small businesses across the country.





## CHAPTER II

### DEPARTMENT OF DEFENSE ASSISTANCE

It shall be the policy of each Department to place with small business concerns a fair proportion of the total procurement of supplies and services for that Department. As a means of carrying out this policy, and when not clearly to the disadvantage of the Department, the procurement of supplies or services shall be divided into such reasonably small lots as will enable and encourage small business concerns to make bids or proposals on such supplies or services or on portions thereof.<sup>5</sup>

The mandate of Congress, expressed in the Small Business Act of 1958, requires that all agencies of the Government cooperate with the SBA in carrying out programs designed to assist small business concerns. The Department of Defense is the largest single buyer of supplies and services within the Government and obviously is the agency most likely to help small business firms in the procurement area. Accordingly, the Department of Defense has created an organization within the procurement activities of the Department to ensure that the intent of Congress is satisfied.

#### Organization

The organizational structure of the Department of

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<sup>5</sup>U. S. Department of Defense, Armed Services Procurement Regulations, Sect. 1-302.3.



Defense to provide the small business assistance function follows the normal pattern. At the Department of Defense level a Director for Small Business for the Department of Defense has been appointed. This official acts in an advisory capacity to the Assistant Secretary of Defense (Supply and Logistics) in matters relating to the establishment, implementation, and execution of an appropriate Small Business Program within the Department of Defense. The Director for Small Business for the Department of Defense acts strictly in an advisory and policy-making capacity and does not become involved in procurement operations.

The Small Business Advisor also conducts all negotiations with the SBA or other Government agencies or departments outside the Department of Defense concerning small business policies and programs.

Each Military Department has created an Office of Small Business Advisor for the Department. The Chief of each Office of Small Business devotes his energies and efforts exclusively to small business matters and acts as advisor to the Secretary of the Department. He is responsible for implementing the Department of Defense Small Business Program within his Department and for representing his Department in negotiations with other Military Departments or Governmental agencies on small business matters. The Department Small Business Advisors also are primarily interested in policy, implementation, and direction within their Departments and do not normally become involved in specific procurement operations except in an advisory capacity.







The Military Departments have appointed individuals in each of their principal procurement offices to devote their time exclusively to assisting small business concerns. These individuals have been designated as Small Business Specialists. These Small Business Specialists have the responsibility for implementing and policing the small business policies and programs of the Department of Defense and the Military Departments. Each of the Military Departments have issued specific instructions outlining the duties and functions of the Small Business Specialists, and while the instructions are not identical in each department the following list covers the normal areas of responsibility of the Small Business Specialists and indicates the scope of their interests in the procurement process.

- a. Provide a focal point to which small business concerns may direct inquiries concerning participation in the procurement program or assistance in the performance of contracts.
- b. Institute a program to discover small business sources capable of participating in procurements to meet current and anticipated requirements.
- c. Screen all proposed procurements prior to issuance of invitations for bids or requests for proposals to insure that small business is receiving adequate consideration in connection with the award of contracts; and, with respect to each proposed procurement amounting to \$10,000 or more, advise the contracting officer (i) whether a particular procurement is suitable for performance by small business concerns, and (ii) if suitable, the minimum percentage of the procurement that the contracting officer should endeavor to place with small business concerns.
- d. Make recommendations to the contracting officer with respect to the competency, capacity, and credit of specific small business concerns with reference to specific procurements.





e. Make appropriate recommendations in connection with the issuance of certificates of necessity, defense order priorities and allocation ratings, financing, furnishing of government equipment, inspections, payments, and other measures to assist small business concerns in the conversion of their plants for defense production.

f. Maintain liaison with contracting officers to insure that requests by small concerns for financial assistance, available under existing regulations, are not treated as a handicap in the award of formally advertised or negotiated contracts; and screen proposed invitations for bids to insure that provisions relating to requests for and the making of progress payments are included in accordance with current instructions and regulations.

g. Participate in meetings of review boards or committees considering contract awards whenever small business is concerned and in appropriate cases recommend to the contracting officer the award of contracts to specific small business concerns for the purpose of broadening the industrial base of suppliers.

h. Observe the effect of current procurement policies on small business participation in procurement programs and recommend to the appropriate authority any desirable changes or new policies.

i. Obtain information concerning subcontracting policies and procedures of prime contractors in order to discover and report to the appropriate authority any practices that tend to discriminate against small business concerns or discourage them from taking an interest in subcontracting.

j. Insure that small business participation in procurements is accurately measured and reported, and furnish appropriate comments to the appointing authority on such reports.

k. Review and advise contracting personnel with respect to policies and practices under the Production Allocation Program to promote maximum utilization of small business facilities.

l. Maintain liaison and exchange information with local offices of other Government agencies for the purpose of rendering maximum assistance to small business concerns.

m. Furnish available data concerning small business suppliers, their facilities, and capabilities; and otherwise assist Federal, State, and authorized private agencies, if requested, in developing an inventory of the productive facilities of small business concerns.





n. Initiate action where appropriate to accomplish full cooperation of the purchasing activities with the Governor's Commission on Small Business of each State in implementing a program to assist Small Business and to broaden the industrial base of suppliers.

o. Review any action within his activity involving (i) a defense prime contractor's acquisition of industrial facilities through a proposed defense contract, (ii) a request from a business concern after award for the furnishing of Government-owned facilities, or (iii) a request for accelerated amortization of contractor-owned facilities. The Small Business Specialist must recommend to the head of his procuring activity disapproval of such actions when adequate facilities for defense purposes are known to exist within the small business community and are available to the prime contractor involved on a subcontract basis.

Various agencies of the Government have also established certain boards and committees to further the aims of the Congress in providing assistance to small business concerns. The President has established a President's Cabinet Committee on Small Business which insures that the problems and needs of small business are attended to at the highest level in the executive branch.

The Department of Defense has constituted a committee known as the Department of Defense Small Business Advisory Committee. This committee is composed of representatives of large and small business firms in industry and functions independently of the Secretary of Defense. The purpose in creating the committee was to secure independent and objective views and recommendations from the business community with which the Department of Defense conducts its procurement operations. The committee meets quarterly at the seat of government and conducts a subcommittee type seminar to discuss small business problems and makes recommendations to the



Department of Defense regarding the small business program being carried on by the Department of Defense.

Each of the military departments has established a committee or council to assist and counsel the Department Small Business Advisor. These committees are made up of the senior Small Business Specialists from the major subdivisions in each Department and they take an active role in determining policies and programs within their respective departments.

The organizational position of the Small Business Advisors and the Small Business Specialists within their parent agencies differs to some degree depending on the desires of the head of the department concerned and the differences in size and mission of the procurement offices within the departments. At the Department of Defense and military department level the Small Business Advisors generally have direct responsibility to the Head of the Department, or at least operate independently of other functions and have direct access to the Chief. In the Bureaus of the Navy Department, the Technical Services of the Army, and the District Offices, Depots, and Headquarters of the Air Materiel Command of the Air Force the Small Business Specialists and Small Business Advisors report directly to the Head of the Activity or to the Head of the procurement office involved. Regardless of their position on the organization chart, the Small Business Specialists who function at the procurement operating level must be close to and operate with or through the procurement office in order to carry out their assigned responsibility.







### Programs

In order to carry out its responsibilities under the Small Business Act of 1958, the Department of Defense, like the SBA, has adopted certain policies and developed definitive programs designed to provide the assistance necessary to " . . . insure that a fair proportion of the total purchases and contracts . . . be placed with small-business enterprises. . . ." <sup>6</sup> Some of the programs of the Department of Defense are similar to those of the SBA, and some of the Military Departments have developed additional programs within their departments to further the aims of the overall policy. This chapter contains explanation and discussion of these programs.

#### Set-Aside Program

This set-aside program is actually the same program referred to in chapter I and was established jointly by the Department of Defense and the SBA. It is sometimes referred to in procurement circles as the joint-determination programs; similarly set-asides are often referred to as joint-determinations. This program allows contracting officers (in some cases and under certain circumstances requires) to restrict (set-aside) certain procurements, or portions thereof, for exclusive participation by small firms. Large firms are thereby precluded from bidding on these procurements and small firms

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<sup>6</sup>85th Congress, 2nd Session, Public Law 536, Sect. 2.



are assured of no competition from large firms.

Set-asides are justified when they considered (i) in the interest of maintaining or mobilizing the nation's full productive capacity, or (ii) in the interest of war or national defense programs. The total set-asides are used only where there is a reasonable expectation that bids or proposals can be obtained from a sufficient number of competent small business concerns to insure that awards can be made at reasonable prices without detriment to the Government. If sufficient competition cannot be obtained to justify a total set-aside, the procurement may be partially set-aside if, in addition to the criteria for a total set-aside, the (i) procurement quantities can be divided into two or more economical production runs, and (ii) two or more small business sources are known or believed to have the technical competency and the productive capacity to supply the portion of the procurement being set aside. The set-aside portion is supposed to be the maximum amount that small firms could furnish at the time the procurement is made.

The decision to set-aside a procurement for small business must obviously be made before the procurement is initiated by the procurement officer; i.e. prior to the time the invitation for bids or the request for proposals is sent to prospective bidders. The procedures followed by procurement offices within the Department of Defense invariably make the Small Business Specialist responsible for screening all procurement requests for possible set-asides. In most major







procurement offices the SBA also screens all procurements and recommends those procurements which should be set-aside for exclusive or partial participation by small business concerns. The representative of the SBA makes a written request to the contracting officer to restrict the procurement to small business and the contracting officer either approves or disapproves the request in writing. The SBA representative may appeal any disapproval to the Chief of the purchasing activity, and his decision in the matter is final.

If the procurement officer feels that the bids or proposals received on a set-aside procurement are unreasonable, he may withdraw the set-aside provisions and proceed to make the procurement in the normal manner with open competition. The withdrawal is sent to the SBA representative for his approval or disapproval. If he disapproves, the same appeal procedure as for rejecting a set-aside request is used. The procurement officer notifies all firms interested in the procurement that it has been set-aside for small business by inserting the following clause in the Invitation for Bids or the Request for Proposals:

Bids or proposals under this procurement are solicited from small concerns only and this procurement is to be awarded only to one or more small business concerns. This action is based on a determination by the contracting officer, alone or in conjunction with a representative of the Small Business Administration, that it is in the interest of maintaining or mobilizing the Nation's full productive capacity, in the interest of war or national defense programs, or in the interest of assuring that a fair proportion of government procurement is placed with small business concerns. A small business concern is a concern that--





(i) is not dominant in its field of operation, and, with its affiliates, employs fewer than 500 employees, or

(ii) is certified as a small business concern by the Small Business Administration.

In addition to meeting these criteria, a dealer submitting bids or proposals in its own name must be a regular dealer (non-manufacturer) and agree to furnish the product of a small business manufacturer or producer in the performance of the contract; provided, that this requirement as to dealers does not apply to construction or service contractors. The right is reserved to reject any or all bids or proposals when it is in the interest of the Government to do so. Bids or proposals received from firms which are not small business concerns shall be considered non-responsive.<sup>7</sup>

The foregoing clause is used in solicitations where the entire amount of the procurement has been set aside exclusively for small business concerns. The following clause is used for those procurements where only a portion of the quantity is set aside for small business concerns.

(Units) of this procurement are to be awarded only to one or more small business concerns. Negotiation for award of the portion of this procurement set-aside for small business will be conducted only with responsible small business concerns who submit responsible bids or proposals on the non-set-aside portion at a unit price within 120 percent of the highest award made on the non-set-aside portion. Negotiations shall be conducted with such small business concerns in the order of their bids or proposals on the non-set-aside portion, beginning with the lowest responsive bid or proposal.<sup>8</sup>

#### Subcontracting Program

The Department of Defense subcontracting program is designed to increase the amount of procurement dollars going to small business concerns through prime contractors subcontracting activities. This is a voluntary participation program on

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<sup>7</sup>U. S. Department of Defense, Armed Services Procurement Regulations, Sect. 1-706.5 (c).

<sup>8</sup>Ibid., Sect. 1-706.6 (c).





the part of prime contractors and the Department of Defense actually has little control over subcontracting by prime contractors. When a contract is awarded to a prime contractor, and the contract is of sufficient size and scope that it offers substantial subcontracting opportunities, the procurement officer making the award urges the prime contractor to accept and institute the Department of Defense Subcontracting Program within his company. The acceptance of the program is not a contractual agreement and amounts to little more than a promise to help small business concerns when it is in the interest of the prime contractor to do so. The contract awarded will contain the following clause.

#### UTILIZATION OF SMALL BUSINESS CONCERNS

(a) It is the policy of the Government as declared by the Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.

(b) The Contractor agrees to accomplish the maximum amount of subcontracting to small business concerns that the Contractor finds to be consistent with the efficient performance of this contract.<sup>9</sup>

When a procurement officer urges a prime contractor to establish a Defense Subcontracting Small Business Program within his company, he asks that the program include the following policies and procedures.

a. The adoption by the company of procurement policies designed to assure that small firms will have an equitable opportunity to secure defense subcontracts, including:

(1) Requiring, to the extent practicable, widespread solicitation of qualified concerns (small as well as large) prior to award of subcontracts.

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<sup>9</sup>Ibid., Sect. 7-104.14.



(2) Allowing sufficient time for competent small concerns to submit bids.

(3) Permitting small firms, to the extent practicable, to submit bids for quantities less than the total requirement.

(4) Making specifications and drawings readily available to interested small concerns.

(5) Establishing realistic delivery schedules, consistent with prime contractual requirements, that do not preclude submission of bids from competent small firms.

b. The designation of an executive of the company or plant as its Small Business Liaison Officer. He will be the contact man with the procuring activity and officials of the Small Business Administration on matters related to Small Business participation. He will be charged by the contractor with assuring that the company or plant carries out the small business subcontracting clause in its contracts, and will be responsible for the establishment of an effective Defense Subcontracting Small Business Program within the company or plant.

c. The publication within the company or plant of the Defense Subcontracting Small Business Program of the company, including the policies and procedures appropriate to accomplish its objectives.

d. The maintaining of records showing as to each prospective subcontractor on the source lists whether or not it meets the definition of a small business concern.

e. The placing of the small business subcontracting clause appearing in the prime contractor's contract in subcontracts of major subcontractors.

f. The requesting of major subcontractors to establish and conduct Defense Subcontracting Small Business Programs meeting these requirements.

g. The utilization of such information related to potential small business sources as is furnished by the appropriate offices of the Military Departments and the Small Business Administration.

h. Submission of such information on subcontracting by Small Business as may be called for at such time as duly authorized forms are provided by the procuring activity.<sup>10</sup>

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<sup>10</sup>U. S. Department of the Navy, Navy Procurement Directives, Sect. 34-107.2.







Once a prime contractor agrees to establish a Defense Subcontracting Small Business Program, one of the Military Departments will survey the program to determine its adequacy and either request that it be changed to more nearly conform to the desired program or accept and approve the program set-up by the contractor. After the initial survey, subsequent re-evaluations are made annually to insure that the program is active and is being followed.

The Military Departments require the prime contractors who have accepted and set-up the Defense Subcontracting Small Business Program to report on the results of the program twice yearly. The report serves to inform the Department of Defense on the results of the program, and also furnishes statistics to use as back-up data for Congressional presentations.

#### Financial Assistance Program

The Department of Defense furnishes financial assistance to small firms mostly by the use of progress payments or advance payments. These forms of assistance are also available to large firms, however, it is doubtful that this type of assistance would be available in extensive quantity if it did not benefit small business concerns to a much greater degree than it benefits large firms. A more direct form of financial assistance, in the form of business loans and disaster loans, is offered by the SBA. This assistance was discussed in Chapter I.

There is a small collection of letters to and from  
the late Mr. John G. Thompson, which are of great  
interest. They are all dated between 1860 and 1870.  
The letters are all written in his own hand, and  
show a very clear and distinct handwriting. They  
are all of great interest, and show a very  
clear and distinct handwriting. They are all  
of great interest, and show a very clear and  
distinct handwriting. They are all of great  
interest, and show a very clear and distinct  
handwriting. They are all of great interest,  
and show a very clear and distinct handwriting.

The collection of letters is of great interest,  
and shows a very clear and distinct handwriting.  
They are all of great interest, and show a  
very clear and distinct handwriting. They are  
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and show a very clear and distinct handwriting.

Procurement Information Program

Considerable effort is put into this program and from some points of view, it is not only the most helpful of all the assistance programs, but is the most logical and realistic program.

The program has several facets and information is disseminated in various ways. One method of dissemination is public posting of proposed procurements. This usually takes the form of posting a copy of each procurement solicitation in a public place (usually the procurement office) where it is available for inspection by anyone who cares to read it. The public posting is a requirement of law<sup>11</sup> and has been practiced for many years. Since a procurement officer posts only the procurements he originates it is doubtful if this effort serves the small business community as a whole to any great degree. It is more expeditious and less costly for interested firms to secure this information from other sources discussed in this chapter.

Procurement Information Centers have been established in major procurement offices and activities throughout the country. These centers are staffed with people who are familiar with the procurement procedures of the offices they represent, and they have available all of the latest information about procurement procedures and exactly what procurements are in process. One limitation to this type of assistance is that the Centers normally have available only information on

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<sup>11</sup>U. S. Statutes. Revised Statues 3709, and Comptroller General Decisions, 24 Comp. Gen. 481.







procurements for activities within the immediate area or for the activity at which the Center is located. The Centers serve a very useful and worthwhile purpose for the immediate local area since they provide information and counsel on all local procurements and therefore assist local small business concerns which desire to bid on the smaller procurements.

The Department of Defense publishes daily certain types of procurement and sales information in the Department of Commerce publication, "Synopsis of U. S. Government Proposed Procurements, Sales, and Contract Awards." This publication is issued daily and lists all Department of Defense procurements which are estimated to cost over \$10,000 and all contract awards which are over \$25,000. The publication is available to anyone on a subscription basis and can be a valuable source of information for any firm desiring to participate in Government procurements as a prime contractor or subcontractor.

The Department of Defense and the military departments also publish directories of their Small Business Specialists who are available at all times to counsel and assist small business concerns in participating in Government procurements. Other publications furnished by the Department of Defense include: "How to Sell To Agencies Within The Department of Defense"; a publication which gives general information regarding procurement procedures, and specific information concerning purchased items and purchasing locations within the Department of Defense. In the matter of procurement information dissemination, mention should be made of the part the SBA plays. The



SBA publishes certain information covering the same general areas as the Department of Defense. It also has available and provides information on specific procurements being contemplated or conducted by the Department of Defense. Certain other publications issued by the SBA were discussed in Chapter I.

#### Procurement Clinics and Technological Exhibits

This program furnishes assistance to small business concerns by conducting clinics and technological exhibits in the businessman's "own back yard." The clinics and exhibits are coordinated with the SBA and local groups such as the Chamber of Congress, and other industrial or civic groups interested in bringing Department of Defense contracts into the community. Small Business Specialists, representatives of the SBA, representatives of major Government prime contractors, and local representatives are available at the clinics and exhibits to explain the how, when, where, and what of Department of Defense procurement. The military departments set up elaborate displays of the various items procured by each major procurement office in the Department of Defense and furnish procurement specialists, and in some cases engineers and technicians, to consult with businessmen about participation in Government procurement. Major prime contractors also furnish procurement and technical personnel to discuss their subcontracting programs, procurement programs, and methods of conducting their business with interested small business concerns. The major prime contractors frequently install







exhibits of the items they furnish to the Government and identify the components and items that they desire to secure by subcontracting.



## CHAPTER III

### PROBLEMS OF SMALL BUSINESS CONCERNS

In chapter II we discussed the organizations, policies, and programs used by the SBA and the Department of Defense to carry out the mandate of the Congress.<sup>12</sup> This chapter will go into some of the problems of the small business concern and attempt to evaluate the various programs and policies of the Government in relation to their effect on these problems.

Problems arising out of the use of specifications probably cause as many, if not more, headaches for the small business concern as any other item. The specification problem is not confined exclusively to the small firm, but due to their size and resources available, the large firm is usually in a much better position to solve its own problem without outside assistance. One contractor defined Government specifications thusly.

A specification is a voluminous and painstaking-dry document designed to harass, hamper, and confuse the manufacturer, disturb the digestion and emotional stability of congressmen, gnaw at the very foundations

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<sup>12</sup>85th Congress, 2nd Session, Public Law 536, July 23, 1958.





of democracy, and provide simultaneous discrimination against both big and little business. It was written as a masterpiece of incoherence by a man who never saw the commodity specified and for bidders who won't read it anyway. The item detailed bears no relationship to reality, as it cannot be produced as specified, and would be worse than worthless if it could. It is hopelessly incompatible with current production techniques, utilizes materials that are not available, was three years out of date when published, and cost more to write than the item described therein.<sup>13</sup>

While this description may be somewhat exaggerated it portrays the attitude of many contractors and bidders who attempt to use Government specifications in connection with bidding and producing on the items the Government buys under specifications.

The problem cannot be attributed solely to the Government however. The whole process and procedure for drafting and publishing a specification in the Government is a tedious and time-consuming one. The main requirement of any specification is that it accurately describes the item as precisely as possible. This main requirement presupposes that the person writing the specification not only know something about the item and its components, but the military uses of the item, the conditions under which it will be used, and the type of individual who will use the item. In many cases, particularly complex weapons systems, it is virtually impossible to write procurement specifications in detail. Broad general performance characteristics and requirements must serve to inform the bidders what the Government wants or needs. With the

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<sup>13</sup>Author unknown.



complexity of modern-day weapons and the rapidity with which new technology introduces changes, it seems that little improvement can be expected in this type of specification.

There are areas, however, where the Government can improve its methods of writing specifications. Normally, technical personnel are responsible for drafting specifications and these individuals do not seem to show much interest in the problems of the small business firm. In many cases specifications are written by industrial concerns, often a firm interested in bidding on procurements of the item. When this situation obtains it is little wonder that items, materials, or processes are required in a specification and at the same time prejudice the rights and ability of small business concerns to compete. Purchase descriptions are often written around an existing piece of equipment, or a modification of an existing piece of equipment, and unless careful control is exercised, the description will very likely contain certain restrictive elements which preclude all firms from bidding except the original producer of the item.

But contrast the situation just described with this actual experience of the Department of Defense. The Department of Defense desired that entirely new specifications be drafted to cover an entire line of products in an industry. Due to the cost and effort involved, and because the Department of Defense wanted specifications which were absolutely non-restrictive in any sense, the industry itself was asked to provide the specifications, with only broad, general guidance furnished by







Government. Because only large firms could bear the cost of this gratuitous gesture, the specifications were actually drafted by the large firms in the industry. The specifications were not restrictive in any way, and both large and small firms were able to utilize them in bidding on Government procurements. When subsequent procurements were made with these specifications however, they were invariably set-aside exclusively for small business concerns. Obviously this treatment was manifestly unfair to the large firms which expended so much time and money in the preparation of the specifications for the Government.

Another example of inadequate specifications that caused a problem for a small business concern involved the use of a set of published Military Specifications. The procurement was set-aside for small business only and a small firm, utilizing the specifications provided by the procurement officer, bid on, and was awarded the contract. Subsequent investigation over a period of one and one-half years revealed that the items described in the specifications had never been produced, one critical part could not be produced as described in the specification, and the small firm contractor almost went bankrupt because of excessive inventory, overhead costs, and labor costs while waiting for the Government to discover and correct the erroneous specifications.

Small business concerns are not guiltless in this respect. Too many of them prepare bids and accept awards without having a clear understanding of the requirements of the



specifications, and they will not seek clarification until delivery is delinquent and the contract has been defaulted. In the example just mentioned, the small businessman should have questioned the specifications at the time he submitted his bid or at the time the contract was awarded.

With the rapid change in technology and the type of items procured by the Government, it seems that it will never be possible to maintain a current and perfect library of specifications in the Government. More caution exercised by the procurement officers, and the bidders and contractors, in using specifications would help somewhat, but the problem will probably enlarge rather than diminish. The Senate Select Committee on Small Business has said:

. . . your committee believes that one of the greatest single deterrents to small-business participation in defense procurement is the absence of adequate drawings and specifications accompanying a request for proposals or solicitation of bids.<sup>14</sup>

Sole sources of supply are used in a great many Department of Defense procurements. In some cases the sole source is actually what the term implies; i.e., only one source produces the item desired. In some instances however, the sole source is artificial due to standardization procedures utilized by the procuring and using agencies. Standardization of items or classes of items is recognized as a useful and economical method of acquiring and maintaining equipment, particularly when

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<sup>14</sup>U. S., Congress, Senate, Select Committee on Small Business, Report of Small Business Participation in Government Procurement, Report No. 1170. December 30, 1957, p. 39.







the equipment is strictly military in application and requires a large number of spare parts and large expenditures of time and money to train men to operate and maintain the equipment. Undoubtedly the majority of the items which are procured on a sole source basis are in fact bonafide sole source items for good and sufficient reasons. But it is also true that some procurements are made on a sole source basis which are actually susceptible to competitive procurement. It is in this last type of procurement that the small business concern desires to secure some participation. Much of the fault in this problem stems from the reluctance of technical personnel to write non-restrictive specifications and the desire to continue to use and stock equipment from only one manufacturer. This problem has been considered by the Legislative branch and it has commented:

. . . the continuing practice of procuring military items from sole sources of supply is believed to be highly detrimental, not only to the smaller firms that are automatically excluded from participation, but also to the Defense Department itself, in view of the total absence of competition which is inherent in such purchasing.<sup>15</sup>

More and more of the many military hardware items procured and used by the Department of Defense are becoming increasingly complex and costly to design, develop, and produce. This fact creates a situation which is highly unfavorable to small business firms in that small firms do not have the technical, financial, or production capabilities to accept awards for contracts of this type. With the Department of Defense relying to an ever greater extent on the so-called "weapons system

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<sup>15</sup>Ibid., p. 40.



concept" there seems to be little likelihood that the small business concern will be able to participate as a prime contractor in the production of the major military items. The small business concern must go down the subcontracting road to participate in this procurement.





## CHAPTER IV

### SUMMARY

Congress, by its enactment of legislation to create a permanent Small Business Administration within the Executive Department, clearly indicated its intention that small business shall receive assistance from the Government in the interest of maintaining a healthy national economy. The Department of Defense and the military departments have set up organizations and established programs and procedures to furnish the assistance they believe is necessary to carry out the intent of Congress. After seven years of operating a program to assist small business, the results indicate that a smaller and smaller percentage of Department of Defense procurement dollars are going to the small business concerns of the nation.

Most responsible officials explain the decrease by pointing to the continuing change in the type and nature of the items being procured and used by the Department of Defense. Certainly to some degree they are correct, but this explanation does not tell the entire story. A lot of emphasis is put on the set-aside programs by the Small Business Administration and the Department of Defense, and an increasing amount of emphasis is being given to the subcontracting programs. Congress gives searching review to each of the programs and the policies of all



agencies each year, but the trend is still downward. Why? Are the programs unrealistic? Is not enough effort being put into the programs? Are additional programs required? These are questions that the Small Business Administration and the Department of Defense will have to find answers to in the future.

On their face, most of the programs seem to offer reasonable and adequate assistance to the small business concern. Some of them however, do not secure the results one might expect and some of the results are misleading unless the facts behind those results are known.

The set-aside program has consistently been given more attention than any of the others. This is a program designed to insure that awards are made to small firms, and indeed it accomplishes just that. But a look at some of the awards and at the procurement records of many set-asides would reveal that little actual assistance was given to small business firms by the set-aside action. Mention has been made of the problem of "sole-source" procurements, and their adverse affect on the small firm, but no mention is ever publicly made of the fact that a large percentage of the set-aside actions taken in the Department of Defense are in fact "sole source" procurements from small business concerns. There seems to be little doubt that this type of set-aside really helps a small firm since the award would have been made to the same firm regardless. An examination of procurement records reveals also that many set-aside actions are made only when it is virtually certain by the procurement officer







that no large firms are interested in bidding on the procurement anyway. Here too, there is little or no actual assistance given to small firms.

Set-asides restrict competition. Procurement officers in the Government have operated for years on the principle that the more competition the better the procurement. In fact, except for certain specific exceptions, competition is required in all procurements. There is justification for reaching the conclusion that small business concerns would receive almost as many awards without the set-aside program as they receive as a result of it.

Undoubtedly, there are numerous instances where it is entirely feasible to secure adequate competition for a procurement and at the same time preclude large business firms from competing, but it is also a fact that this procedure directly opposes the principle of full, free, and open competition. Proponents of the set-aside policy maintain that sufficient competition is secured when enough responsive bids are received to insure that the award is made at a fair and reasonable price, and procurement officers use this argument constantly on all procurements, but the determination of sufficiency is a theoretical question and the solution can only be based on the experience and judgment of those making the decision.

Another problem that arises in the set-aside procedure is that of deciding which business is small and which is not. The law specifically gives the authority and responsibility for defining "small business" to the Small Business Administration. The Department of Defense is mainly interested that any



definition devised by the Small Business Administration be such that procurement officers are relieved of the necessity, and almost impossible task, of making a determination of whether or not a firm is small each time a procurement is initiated. The Department of Defense and the Small Business Administration have agreed to use a definition based on size and dominance in industry criteria, but the Small Business Administration uses other criteria for size determination for loan purposes. Needless to say, this policy causes some confusion for small business concerns which may be "small" for Government procurement purposes but "large" for other purposes. The Congress and the Small Business Administration have expressed the desire for the Department of Defense to use other than size standards in the definition but the administrative burden caused by any other definition would not only add to the administrative burden of procurement officers but would surely slow down the procurement process to an unacceptable degree.

There is some indication that the small business community in industry does not agree in principle with the set-aside program. The Department of Defense Small Business Industry Advisory Committee adopted the following resolution in 1957:

We expect to face fair competition, operating under the same conditions, and we are for a competition that does not enjoy exclusive and unjustifiable privileges. Furthermore, we believe that it is the mission of the Department of Defense to keep our country in a state of keen preparedness, and not to try to maintain a balanced economy among American industry.<sup>16</sup>

This view is not shared by the Congress or by the Department of Defense since more and greater emphasis is being

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<sup>16</sup>Ibid., p. 7.







put on the set-aside program each year.

The subcontracting program was designed to increase the amount of procurement dollars going to small business concerns through the prime contractors subcontracting work. The acceptance of the program by a prime contractor is not mandatory and is largely uncontrollable by procurement officers and Small Business Specialists. Some special problems have arisen in connection with this program. Except in unusual or special circumstances, the procurement officer cannot attempt to dictate to the prime contractor exactly which subcontractor should be used to furnish components or services for the prime contract. Most contractors feel that this part of the production process is their prerogative and one which they should be allowed to handle as they see fit. One of the basic principles of the "weapons system concept" is that one prime contractor should contract for and be responsible for delivery of an acceptable end item in accordance with the terms of the contract. Any division of responsibility for the quality or delivery of the end item between suppliers would surely cause numerous complex problems for the Government.

Other points that should be considered are those of allowable costs, profits and subcontracting. Procurement regulations for the Department of Defense are clear that a prime contractor, under a cost type contract, should be allowed less profit on the cost of the items he subcontracts. This principle is in direct opposition to the principle embodied in the subcontracting program. On one hand, the procurement officer



should urge the prime contractor to subcontract the maximum amount possible to outside small firms; on the other hand, the procurement officer and the auditors should reduce the amount of profit allowed the contractor for subcontracting the work rather than manufacturing in his own plant. Prime contractors naturally resist subcontracting when they can make larger profits by performing the contract internally. Another valid reason given for not subcontracting is that when idle plant capacity exists in the prime contractor's plant, he should be allowed to utilize his own capacity to lower overhead rates and maintain his skilled employees on the job rather than to subcontract the work to outside firms. Mr. Ernest F. Leatham, Assistant to the President, Raytheon Manufacturing Company, expressed the problem clearly when he said:

Many Government negotiators have long had the concept that the more subcontracting a prime contractor does, the less risk it assumes, and hence the less profit allowance it should receive. This has been applied not only in fixing profits on fixed price types of contracts, but also in setting rate of fees on cost reimbursement contracts. . . . its most spectacular application was by the Renegotiation Board in its decision in the Boeing Case (now being appealed by that company), in which very large refunds were demanded in renegotiation specifically because of the large volume of subcontracting by Boeing in the year under review.

On the other hand, military contracts must include a clause under which contractors agree to place subcontracts with small business as much as possible. It is the declared policy of Congress, and of each of the Services, that small business should participate as widely as possible in defense contracting. Thus the military's pricing policy is expressly opposite to the Government's procurement policy.

Even more relevant, however, to this subject is







the fact that the whole concept of placing weapons systems responsibility in a single company is wholly dependent upon its agreement and willingness to place major subcontracts, and to supervise and coordinate their performance. The Government by this practice is shifting the whole risk from its shoulders to the contractor, and the latter's "contribution" must become greater if it succeeds at all! It is, therefore, wholly inconsistent to penalize the contractor by reducing allowable profit because it performs the very service being purchased.<sup>17</sup>

It is difficult to see how any program, regardless of how well conceived or energetically carried out, can produce the end result desired when it directly conflicts with other programs being carried out by the identical same activities and officials.

Other assistance programs, such as the Financial Assistance Program, the Procurement Information Program, and the Procurement Clinics and Technological Exhibits Program seem to provide the assistance they were designed to furnish. It is impossible to measure the actual results of the programs, but an indication of their worth to the small business community is the acceptance of the programs by the small business firms affected by them. Most yardsticks used to measure the value of these programs indicate that small business firms are helped to an appreciable degree in that they are made aware of the procurement policies and procedures of the Government, and in some cases small business firms have reported that they have secured some direct help in the form of contract awards as a result of these programs.

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<sup>17</sup> Ernest F. Leathem, "What Price Procurement Integration?" Armed Forces Management, November, 1958, p. 19.



## Conclusions

The problems faced by small business in its efforts to do business with the Department of Defense are almost too numerous to record; however, your committee believes that the most significant and fundamental of all is the basic, though well-concealed, attitude of indifference to the program maintained by that vast and powerful middle-management group consisting of contracting officers, buyers, negotiators, and those technicians drafting supply requirements. Your committee urges . . . direct immediate attention to this basic problem and, through searching study, determine . . . whether everything humanly possible is actually being done to assist small business in becoming a more potent factor in the Department of Defense supply system.<sup>18</sup>

This quotation from the recommendations of a Senate Committee clearly indicates the feeling in the Legislative branch about the programs of assistance being carried on in the Department of Defense. It would be naive to think that any Government assistance program could be established and carried on without some political implications and pressures; and the small business assistance program is no exception. While this presentation has avoided all of the intangible and "off-the-record" causes and effects of the program, even a casual review of Senate and House hearings or reports will reveal that there is in fact a great deal of political interest in the Department of Defense programs.

This political pressure is to be expected, and to some degree desirable, but when it is coupled with an apparent disregard of conflicts in legislation, good business practices

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<sup>18</sup>U. S., Congress, Senate, Select Committee on Small Business, Report of Small Business Participation in Government Procurement, Report No. 1170, December 30, 1957, p. 39.







in the procurement process, and a seeming interest only in the statistics reported; then part of any failure of the Government program must lie with the legislators themselves.

The set-aside program and the subcontracting program carried on by the Department of Defense get more attention from the Congress, and consequently from the Department of Defense, than the other programs. This is undoubtedly because the statistics reported are more tangible and dramatic than the results of other programs. But it was pointed out in Chapter II that the results reported can be extremely misleading if the facts behind them are not understood.

The Honorable Fred A. Bantz, Assistant Secretary of the Navy (Material), stated before a Congressional Subcommittee for Small Business that " . . . there is further room for increased effectiveness, hence we must continuously endeavor to improve our policies, procedures, and performance in this program."<sup>19</sup> As part of the solution, Mr. Bantz also stated a need for " . . . a more dynamic and imaginative approach to this whole problem."<sup>20</sup> I would only add "realism" to this somewhat idealistic suggestion.

Education of all personnel connected with the procurement process: technical, fiscal, planning, and procurement; is one of the most badly needed efforts within the Department of Defense for its small business programs. Until everyone understands and sympathizes with the programs, and until everyone involved

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<sup>19</sup>U. S., Congress, Senate, Select Committee on Small Business, Hearings, on Small Business Policies and Programs of Government Agencies, 85th Congress, 1st Session, 1957, p. 188.

<sup>20</sup>Ibid.



develops an appreciation of the "big-picture" implications of the small-business role in our national economy, there is grave doubt that any of the policies and programs thus far implemented will result in any appreciable increase in the small firm's share of the Department of Defense dollar.





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## GLOSSARY OF TERMS

Advance Payment. A payment made to a contractor before he starts production under a contract. Used to assist contractors who need working capital to procure inventory and labor to start production.

Bidder. A person or firm which offers a proposal to enter into contract with the Government.

Bidders List. A list of prospective bidders and sources of supply. It is maintained in procurement offices and normally indicates the name and address of firms, together with the items the firm produces and desires to furnish to the Government.

Certificate of Competency. A statement issued by the Small Business Administration which certifies that a small business concern is financially competent and has adequate production facilities to perform a specific Government contract.

Certificate of Necessity. A certificate issued by the Government which certifies that the enlargement of a contractors production facilities, or the acquisition of additional facilities, is necessary to support production for the national security, and normally allows the contractor the benefit of accelerated amortization for all or a part of



the facilities covered by the certificate.

Governor's Commission on Small Business. Any commission, committee, board, or group appointed by a Governor of any of the States to explore ways and means of promoting and developing the industrial potential and participation of small business concerns in our national economy.

Invitation for Bids. A standard form, or group of forms, issued by procurement officers to prospective bidders. The forms spell out the items or services the Government desires to purchase and specifies the quantity, quality, and conditions under which a firm may submit bids, and sets the time of opening of bids.

Major Procurement Office. In the Department of Defense, any procurement office which has been given authority to make procurements in excess of \$1,000.

Military Departments. The Department of the Navy, the Department of the Army, and the Department of the Air Force.

Military Specification. A specification which describes an item or process which has only military application. The specification is written and used by the Military Departments.

Prime Contractor. A firm or person who receives a definitive contract from the Government and is absolutely responsible for delivery of the items or services described in the contract, and in accordance with the terms of the contract.

Procurement Officer. Any individual in the Government who has been given the authority to enter into contracts with private individuals or firms for Government requirements.







May be either civilian or military, and is synonymous with contracting officer.

Production Allocation Program. A long-range plan developed by the Government to most effectively allocate anticipated mobilization requirements of military items to a widely dispersed number of industrial producers throughout the United States.

Progress Payment. A payment made during the production process but prior to delivery of items under a contract. Usually made upon completion of specified percentage of the process or production.

Qualified Product. A product which has been tested and certified by the Government as meeting the requirements of a specification. Normally a product which requires a large expenditure of funds and time to determine whether a product is satisfactory for use.

Qualified Products List. A list of all qualified products within the Department of Defense.

Request for Proposals. A form or set of forms used to secure proposals from prospective producers for the Government. Gives essentially the same information as an Invitation for Bids, but is used when a procurement is to be negotiated rather than advertised.

Responsive Bidder. A person or firm submitting a bid or proposal which is responsive to all of the material elements of the solicitation, and which satisfies the requirements of law with respect to Government procurements.



Set-Aside. An administrative decision to restrict all, or a portion, of a procurement to certain specified sources.

Small Business Certificate. A certificate issued by the Small Business Administration pursuant to the authority contained in the Small Business Act of 1958, certifying that the holder of the certificate is a small business concern for the purpose of Government procurement and in accordance with the terms of the certificate.

Small Business Concern. A concern that (i) is not dominant in its field of operation, and with its affiliates, employs fewer than two employees, or (ii) is certified as a small business concern by the Small Business Administration.

Small Business Defense Production Pool. A group of manufacturing concerns having among themselves production facilities, whose owners have associated together for the purpose of obtaining and performing jointly, or in conjunction with each other, contracts for the production of articles, equipment, supplies and materials and the furnishing of services for Department of Defense use, and who have agreed among themselves concerning their organization, relationship and procedure, and which has been approved as a production pool in accordance with the Defense Production Act of 1950, as amended, or the Small Business Act of 1958.







Small Business Specialist. An individual, military or civilian, who is assigned primary responsibility and specific duties designed to assist small business concerns and supervise the assistance programs within procurement offices in the Military Departments.

Specification. A detailed, accurate description of an item, process, procedure, or method of production, testing, packaging, or shipping.

Subcontractor. A firm or person who participates in Government procurement indirectly by furnishing materials, services, supplies, or assistance to Government prime contractors.





